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DESCRIPTION OF THIRD STIMULUS BILL

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Changes From the Second House-Passed Stimulus Bill are Indicated By This Font

NOTE: Spending and tax changes appear to have been offset by other spending and tax changes respectively. The net result is little, if any change in the ratio of spending to tax relief.

The bill *reduces* revenues by approximately $59.0 billion in Fiscal Year 2002 AND *increases* spending by $30.8 billion in Fiscal Year 2002. In FY 2002, spending constitutes 34.3% of the total bill.

Description of Spending / Unemployment / Health Provisions:

Supplemental "Rebate" (Giveaway) -- provides a new supplemental "rebate" for individuals who filed income tax returns for 2000 before October 16, 2001 (regardless of whether they had any income tax liability *or* any payroll tax liability). Taxpayers would be eligible for the maximum "rebate" amount for their filing status ($300 single or married filing separately, $500 head of household, $600 joint filers) minus the amount (if any) of any previous rebate check issued. It is irrelevant whether the taxpayer showed any amount as wages on the 2000 income tax return.

TANF Supplemental Grants for Population Increases and Contingency Fund – extends for FY 2002, the mandatory supplemental grants under TANF for states with population increases and the contingency fund for states.

Extension of Unemployment Benefits -- Permits States to use federal funds to temporarily extend unemployment compensation for up to 13 weeks for those who have exhausted benefits (retroactive to applicants since March 15).

Additional Extension of Unemployment Benefits -- Current law provides for extended unemployment benefits (up to 13 weeks) when a state's insured unemployment rate reached 5%. Benefits are paid 50% by the federal government and 50% by the state. The bill modifies current law by reducing the trigger to 4% and providing 100% federal funding during calendar year 2002. (NEW PROVISION)

Transfers to State Unemployment Funds – effectively repeals the 1997 Balanced Budget Act provision that capped distributions under current law from the Federal Unemployment Trust Fund to the States at more than $100 million annually. The Federal government retains the remainder of funds that would otherwise be dispersed. This Budget Act provision is set to expire so that full payments would flow to the States starting in 2003. New funds made available to the States must be used to pay regular or increased unemployment benefits or provide extended benefits for those who have exhausted regular benefits or other cash benefits for those who do not qualify for regular benefits. (NOTE: Since this provision simply advances funds that would already be provided to the States in future years, it does not result in net increase in spending over the next several years.) The new bill caps the transfer at $8 billion, approximately $1 billion less than the second House-passed bill.

Promotion of Qualified High Risk Insurance Pools: The bill provides $100 million over the next three fiscal years to provide seed grants to

1. States that have not created high-risk insurance pools, and
2. States to cover up to 50% of the losses of pools that restrict premiums to no more than 150% of the standard risk rate and that offer two or more coverage options through the pool. (NEW PROVISION)

Employment Training and Temporary Health Care Coverage – Appropriates ~~$4 billion~~ $3.9 billion for National Emergency Grants for states affected by major economic dislocations to provide employment and health care assistance for the unemployed.

Temporary State Health Assistance – The bill appropriates $4.6 billion in discretionary spending to the states (based on a formula) to be used to "provide health care items and services."

Health Care Tax Credit -- Provides a 60% advanceable and refundable tax credit, without a cap, for unemployed people who have no access to health care coverage to purchase health insurance (of their choice) for up to a total of 12 months during 2002 and 2003. In addition, the bill provides involuntarily unemployed people the right to guaranteed issue/no pre-existing condition health insurance if they were employed and covered the previous 12 months.

Description of General Tax Provisions:

Accelerate the 25-Percent Rate Bracket to 2002 -- accelerate the reduction of the prior-law 28% income tax bracket to 25%. The 25% rate would become effective for taxable years beginning in calendar years 2002 and thereafter. [It is presently scheduled to become effective in calendar year 2006.] The reduction would not increase any applicable alternative minimum tax.

Expanded Depreciation-- allow an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of certain qualified property that is placed in service after September 10, 2001 and before September 11, 2004.

Section 179 Expensing -- provide that the maximum dollar amount that may be deducted under section 179 is increased from $24,000 to ~~$35,000~~ $40,000 for property placed in service in taxable years beginning after December 31, 2001, and before January 1, 2004. In addition, the proposal would increase the present law $200,000 limit to $325,000 during 2002 and 2003.

Reduction in Corporate AMT – removes depreciation preferences and the 90% limitations on the foreign tax credit and net operating loss deduction from the corporate AMT. This has the effect of gutting the AMT. Companies would still have to complete two tax calculations, but fewer companies would actually have to pay the corporate AMT.

Net Operating Losses -- temporarily extend the general net operating loss (NOL) carryback period to five years (from two years) for NOLs arising in taxable years ending during 2001, 2002, or 2003

Treatment of Leasehold Improvement – permanently changes existing law to provide that 15-year property for purposes of the depreciation rules of section 168 includes qualified leasehold improvement property.

Teacher Deduction for Educational Expenses – permits a new deduction of up to $250 for expenses incurred by teachers for materials used in the classroom.

Foster Care – The bill allows foster care payments to be deducted regardless of whether they're received from a state agency or a private agency.

Extensions of Expiring Provisions – Extends numerous provisions that are set to expire this year or next.

Technical Corrections – Includes numerous corrections to previous tax bills.

Description of New York Specific Tax Provisions:

- Bonus depreciation (in addition to the 30% bonus provided to everyone)
- Reduces recovery period for leasehold improvements from 15 years to 5 years
- Increases Section 179 Expensing by up to $35,000
- Authorizes ~~$15 billion~~ $8 billion of tax-exempt NY Liberty bonds
- Provide businesses with 200 or fewer employees located in the Liberty Zone (mainly Manhattan) with a retention wage credit equal to $2,400 per employee in 2002 and 2003. (NEW PROVISON)
- Allow an additional advanced refunding for certain outstanding tax-exempt bonds used to finance facilities within New York City (NEW PROVISION)

Description of Tax Provisions for Victims:

Provisions included in the second House-passed bill have already been enacted into law. These provisions reduced revenues by $190 million in FY 2002 and $360 million over ten years.